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Rent of ability expresses the value of the product due to superior intellectual or physical ability, and belongs solely to the man who possesses it.

Interest expresses the value of the increase in product due to the use of appliances, and clearly belongs to the owner of those appliances. But, if the owner is not the user, the latter would gain nothing by adopting them; and hence the owner is compelled to offer a portion of this interest to him as an inducement to use them, so that a portion of the gain from using machinery is always an element in ordinary wages.

C. F. CREHORE.

THE PROPORTION OF WAGES TO OTHER FORMS OF INCOME.

Mr. Edward Atkinson has gained for himself a respectable position among economists and a well-deserved reputation as an accurate and painstaking statistician. The public are generally inclined to accept the results of his statistical investigations, without submitting his calculations to any very rigid analysis. This faith in Mr. Atkinson has undoubtedly a sound basis, so far as it is founded upon a sense of his honesty of purpose and industry. Among economists, however, especially among those who believe that statistical investigation can rarely be fruitful of any valuable results except in the hands of an investigator well grounded in economic theory, Mr. Atkinson's results will not be so readily accepted, when his very inadequate comprehension of the theories of Malthus and Ricardo are called to mind.

Of late, Mr. Atkinson, along with the rest of the world, has been directing his attention to questions of distribution, and mainly to what, in this department, is undoubtedly the most important statistical fact about which accurate information is needed. This fact is the proportion which the laborers' share of the total income of the community bears to the share enjoyed by the owners and controllers of land and capital.*

*This essay has been republished as a part of Mr. Atkinson's book, *The Distribution of Products*, 1886.

In his essay *What makes the Rate of Wages?* Mr. Atkinson claims—and supposes that he proves statistically—that the laborers of America (in which class he includes all salaried and professional persons) are now rewarded for their personal efforts by receiving 90 per cent. of the aggregate income of the community.*

Now, it is evident enough that, if this computation can be sustained, not much amelioration of the condition of the laboring classes can be expected from improvements in distribution. The complete success of co-operation, combined with the nationalization of the land or of the establishment of an ideally perfect system of socialism, would augment laborers' incomes within the limit of 11 per cent., and that only provided as much was produced under the new conditions as under the old. Such a percentage of gain would be wholly insufficient to raise the recipients of wages to any condition materially superior to their present one, and it would be at the expense of the total annihilation of such part of the world's civilization as depends upon a certain portion of the community possessing incomes sufficing for more than bare material comforts.

While we have no sympathy with the idea that an equal distribution of wealth or of income is the only ideally perfect distribution, and while we believe, on the contrary, that a considerable degree of inequality is an absolutely essential condition of any highly organized and fully developed society, we do not think that anything is to be gained by distorting facts or by trying to figure out that the well-off absorb, after all, such an insignificant part of the total product that it is hardly worth an anarchist's time to despoil them. Figures such as

* "I am of the profound conviction that not exceeding 10 per cent. can be set aside as either rent, interest, profit, or *savings*," p. 27. Afterwards, on p. 90 in Appendix I, he estimates the "savings of other classes" as half this 10 per cent. Taken literally, this would seem to imply that this five per cent. of the product was saved out of wages. If so, it is a part of and not a proper deduction from the sum total of wages. A man's income is surely not diminished by his saving something out of it. This would make 95 per cent. instead of 90 per cent. the share of the laborers. It is probable, however, that Mr. Atkinson intends this 5 per cent. to cover rents, and the other 5 per cent. profits and interest; and that he is at fault only in using the word "savings," where he should have said "incomes of rent," though this interpretation conflicts with the quotation we have made from p. 27, where he distinguishes these "savings" from "rent."

Mr. Atkinson's really deceive no one. That the laboring classes receive and consume 95 or even 90 per cent. of the total product of the United States is so evidently false as to constitute a *reductio ad absurdum* of the process by which such a result is reached.

We propose, therefore, to examine Mr. Atkinson's computations in his essay, *What makes the Rate of Wages?* and, giving him credit for the care and accuracy which distinguish him, we will assume the correctness of his figures, only criticising the way in which he uses them.

In Appendix I., p. 91, Mr. Atkinson submits the following calculation:—

Approximate estimate of the value of annual product of the census year,		\$10,000,000,000
Domestic farm consumption estimated,		1,000,000,000
Commercial product,		<u>\$9,000,000,000</u>
Estimated profits of capitalists,	\$450,000,000	
Estimated <i>savings</i> (sic) of other classes,	<u>450,000,000</u>	<u>900,000,000</u>
Wages fund,		\$8,100,000,000
Number of persons engaged in all gainful occupations, in round figures,	17,400,000	
Deduct soldiers, marines, and persons engaged in subordinate positions in the Government service,	<u>100,000</u>	
Remainder,	17,300,000	
Administrative force, <i>i.e.</i> , mental rather than manual,		1,100,000
Working force, <i>i.e.</i> , wage earners and small farmers,		16,200,000
Average remuneration of the administrative force per year,		\$1,000
Average wages or earnings of the working force per year,		\$432

Now, how are these results arrived at?

First, the total "commercial product" is estimated from the census returns,—a difficult matter, as in those returns many values are counted twice or more; *i.e.*, first as raw materials and then as part of the value of the finished goods, and values are computed at wholesale: whereas, for the purposes of this comparison, they must be computed at retail

prices. These matters Mr. Atkinson has adjusted as well as he could; and we may accept with some confidence his computation that \$9,000,000,000 represents the annual commercial product of our country, although Mr. Joseph Nimmo, Jr., chief of the Bureau of Statistics, makes this amount \$9,817,900,630, and says that, as some products have been omitted, he has no doubt that "the total value of the products of all industries was over rather than under \$10,000,000,000, perhaps in very considerable measure." *

Then, assuming that 10 per cent. is a liberal allowance for profits and interest combined, he very naïvely computes the *total product* instead of the *total capital engaged* at that rate, and thus arrives at a sum of \$900,000,000 as the aggregate yearly gain of all American citizens not in receipt of wages, salaries, or professional fees.

Deducting this amount from his \$9,000,000,000, he gets \$8,100,000,000 as a "wages-fund." He should have deducted it from the sum of \$10,000,000,000, thus getting a sum of \$9,100,000,000 as the wages-fund. For his \$1,000,000,000 of domestic farm consumption is as much a part of a wages-fund as any other part of the annual product, and it really forms a part of the remuneration and consumption of the very 17,300,000 persons whose earnings he is endeavoring to calculate. With this correction, Mr. Atkinson's computation points to \$494 as the average yearly wages of the wage-earners in the United States, \$432 of which is on the average paid in cash, and \$62 paid in kind or board wages or consumed by the producer. But, when paid entirely in money, American laborers receive \$492 per annum on the average.

But Mr. Atkinson and others have shown, I think, conclusively that \$432 represents pretty accurately the average annual compensation of wage-receivers. If wrong at all, that sum is certainly too large rather than too small. Mr. Atkinson's estimate of \$8,100,000,000 as the wages and salary fund of the United States in the year 1880, although wrongly arrived at, must be nearly correct.

*Mr. Atkinson himself notices this computation, and characteristically proceeds to distribute the excess as wages, without, apparently, any suspicion that without its aid his result as to average wages errs, if anything, on the side of excess.

We have, then, \$1,000,000,000 which Mr. Atkinson does not account for; or, if we accept Mr. Nimmo's calculation, we have \$2,000,000,000 of annual product unaccounted for. But a far more serious error than this has been committed. The computation of \$10,000,000,000 includes only material products. The value of services, whether such services were performed by persons, land, or capital, has been entirely omitted. Yet these services are exactly as much a part of the annual product of the nation as its flour or its pork. A man with an income of \$5,000 will expend, perhaps, \$600 for house rent, \$300 in servants' wages, \$300 for doctors' and lawyers' fees, schooling, and pew rents, \$200 in travelling, concerts, theatres, etc. Probably 35 to 40 per cent. of his expenditure will be for services rather than products. And, though the wage-receiver expends a less proportion of his income for services, they form (including house rent, doctors' bills, etc.) certainly 15 per cent. of his expenditure.

Let us see what this rather serious omission amounts to. And, first, what is the annual value in the United States of personal services? Among Mr. Atkinson's 17,300,000 workers, we find 2,712,943 males and 1,361,295 females engaged in rendering personal and professional services; that is, 4,074,238 working persons, the value of whose labor does not appear in the value of any material product whatsoever.* As a large number of these renderers of services are paid partly in board, we will assume, merely for the purposes of this exposition, that these 4,000,000 people sell their services at an average of \$300 per year each,—not an extravagant estimate, when it is remembered that the list includes clergymen, lawyers, physicians, actors, etc.,—and that the average wage-earner gets \$432 per annum, more than 40 per cent. above the figure we have named. This would give us a sum of personal services amounting to \$1,200,000,000, which is just as much a part of the yearly product of the nation as the \$10,000,000,000 of material products recognized by Mr. Atkinson.

As to services rendered by land and capital, the value of

*It will be observed that Mr. Atkinson includes this very 4,074,238 persons among his 17,300,000 producers at the same time that he excludes what they produce from the sum total of annual products.

which does not reappear in that of any product, we have made the following rough computation: One-fifth the value of farms is calculated as due to the buildings and permanent improvements upon them. If we assume half of this sum, or one-tenth of the value of farms, as representing the dwellings upon them, we have \$1,019,700,000 of service-producing wealth. The residences and business real estate, including water power, are valued in the United States at the sum of \$9,881,000,000. The value of the use of business real estate and water powers reappears in that of material products; but the rent of dwellings, with that of the land they occupy, does not so appear. If we assume, therefore, that these latter compose three-fourths of the above total, we have a further sum of service-rendering wealth amounting to \$7,410,000,000. And, altogether, we have a sum of \$8,429,700,000 of such wealth, which at 8 per cent. per annum would yield a rental of \$674,376,000.

Horses and other animals hired or kept for pleasure, railroads and telegraph companies to the extent in which they are utilized for other than business purposes, together with the services performed for us by various other forms of accumulated wealth, would perhaps add enough to this sum to make it in round numbers \$800,000,000 annually. We have here another \$2,000,000,000 of annual income which Mr. Atkinson's computation fails to account for.*

We have, then, as the total annual product of the United States, according to Mr. Atkinson, but with omissions supplied:—

Material products marketed,	\$9,000,000,000
Material products unmarketed,	1,000,000,000
Services rendered by persons,	1,200,000,000
Services rendered by wealth,	800,000,000
Total,	<u>\$12,000,000,000</u>

Of this sum, Mr. Atkinson shows us (and in these figures we

*That this computation is a moderate one would appear from the fact that, according to it, the average expenditure for rents, personal services, pleasure, travelling, etc., is $\frac{1}{5}$, or 16 $\frac{2}{3}$ per cent., of income; and this result accords with what would be expected from general observation.

believe him to be as nearly correct as present statistics will allow) that

16,200,000 common laborers and artisans obtain as wages . . .	\$7,000,000,000
And that 1,100,000 laborers of higher class obtain in fees and salaries and wages the yearly sum of	<u>1,100,000,000</u>
Total reward of personal efforts,	\$8,100,000,000
Leaving, as the remuneration of other industrial agents, the yearly sum of	3,900,000,000
Or, if Mr. Nimmo's calculation of material products is to be received as more accurate than Mr. Atkinson's,	4,900,000,000

In other words, the sum total of the annual rents, profits, and interest in the United States is from $4\frac{1}{3}$ to $5\frac{1}{3}$ times what Mr. Atkinson assumes it to be; and the owners and controllers of wealth, instead of receiving only 9 per cent. of the total product, receive $32\frac{1}{2}$ per cent. to $37\frac{1}{2}$ per cent.

That this calculation is not seriously out of the way can be shown from another class of statistics. The accumulated wealth of the United States is calculated in our census as amounting to the sum of \$43,642,000,000, all of it income-producing, except the greater part of "household furniture, etc., \$5,000,000,000," and "churches and other real estate exempt from taxation, \$2,000,000,000." Of this, \$7,000,000,000, if we assume \$642,000,000 to be income-producing, there would be in the United States the sum of \$37,000,000,000 productive of income. But, for the purpose of this computation, the sum of national, State, and municipal indebtedness must be added, as the interest paid on these obligations constitutes part of the income of our moneyed classes. And, for a like reason, we should add the capitalized value of all patent rights, charters, franchises, trade secrets, copyrights, and monopolies. These two sums, taken together, cannot well amount to less than \$8,000,000,000;* and we have, consequently, a gross sum of about \$45,000,000,000 of vested interests from which an income is derived.

Our two computations indicate that this income is from $8\frac{7}{8}$ per cent. to $11\frac{1}{8}$ per cent. of the principal. Even the larger

*This sum is a pure assumption on the part of the writer, made for the purpose of presenting arithmetically the confirmation afforded by this independent calculation of the sum total of incomes other than wages.

of these percentages will not appear extravagant, when it is remembered that in this community money is worth 3 per cent. when the security is as absolutely perfect as security can be, that Eastern merchants pay on the average fully 6 and Western merchants from 7 to 12 per cent., and make a profit for themselves in addition considerably in excess of the percentage they pay, and that farm mortgages pay an average of over 6 per cent.*

If we suppose that the average of interest paid on American loans and bonds is $5\frac{1}{2}$ per cent.,—an average that cannot be far from the truth,—and if we further assume that the sum total of profits is about equal to the sum total of interests,—a supposition frequently made in the discussion of economic questions,—we should expect a gross return of rents, interests, and profits equal to 11 per cent. of the capitalized value of property.

On the other hand, according to Mr. Atkinson, the \$45,000,-000,000 of income-producing capital, land, and vested interests, which exist in the United States, only yield to their possessors and controllers an average income of 2 per cent. per annum, and this while 3 per cent. can be obtained from borrowers offering the best possible security.

Another method of testing these results can be found in investigating the proportion between annual savings and gross profits. It may be assumed that, as a whole, wage-receivers save little or nothing. The only apparent exceptions to this are the farmers, who are classed as wage-receivers in the census. But, though this class saves a great deal annually in the aggregate, few or none of them but expend more than such part of their income as accrues to them as wages. All of them are landlords and capitalists as well as laborers, and it is because of the addition of rent, profits, and interest to their wages that they are enabled to save.

The salaried and professional class undoubtedly lay by a considerable proportion of their income, but not nearly so great a proportion as landlords, capitalists, and *entrepreneurs*

* And it must also be borne in mind that 5 per cent., in addition to interest, is not the average, but rather the minimum rate of profit which will satisfy business men.

do, the latter being pre-eminently the saving class of the community.

Assuming, therefore, that, on the average, wage-receivers save little or nothing, we have rents, interest, profits, and large salaries as the fund from which the annual addition to the national wealth can be made. If we estimate *large* salaries and *large* professional incomes at \$220,000,000, or 20 per cent. of the total of that kind of income, we have, according to Mr. Atkinson, an annual fund of \$1,120,000,000 from which savings can be made. Elsewhere, Mr. Atkinson informs us that we, as a people, add yearly about \$900,000,000 to our accumulated wealth, or, in other words, though he unaccountably neglects to draw our attention to the fact, our accumulating classes, the very classes our newspaper economists are given to charging with reckless extravagance, expend only 20 per cent. of their income in the support of themselves and their families, and add annually 80 per cent. of it to their previous accumulations.

On the other hand, if the sum from which accumulations can be made is really, as we have here somewhat roughly computed, between \$4,120,000,000 and \$5,120,000,000, $17\frac{1}{2}$ per cent. to $21\frac{3}{4}$ per cent. saved will give us the sum of \$900,000,000 calculated by statisticians as added yearly to our accumulated wealth. This proportion (though within the bounds of reason, while that which results from Mr. Atkinson's figure is simply ridiculous) is yet much too large, which circumstance is probably accounted for by the fact that part of this addition is not saved, but is the result of the rise in the value of real and some kinds of personal property, natural to a community in which population is increasing.

There is yet another statistical comparison which goes to invalidate Mr. Atkinson's results and confirm ours. Although the writer is unable to furnish the exact figures, statistics exist which show that the income of the English people is about the same per capita as that of Americans. But wages with us are at least 40 per cent. higher than with them. It follows from this that, if in America 90 per cent. goes to labor, only 65 per cent. goes to labor in England; and that, while 10 per cent. goes to landlords and capitalists in America, 35 per cent. goes

to them in England. According to this, as the rates of interest and profits are lower in England than in America, the accumulated wealth of England must be more than four times per capita that of America.

On the other hand, if in America only 65 per cent. of the total product goes to wages, 47 per cent. of England's product would go to laborers there, under the supposed conditions; while 35 per cent. in America and 53 per cent in England would accrue to landlords, business men, and capitalists. This would make, after a like allowance for different rates of interest, English accumulations per capita about $1\frac{3}{4}$ times American, which is a pretty close approximation to the disparity between the two nations in this respect, which is generally supposed to exist.

FREDERICK B. HAWLEY.